

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

NIC #1065-83
8 February 1983

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: Maurice C. Ernst
NIO for Economics

SUBJECT: Cabinet Meeting on Natural Gas Deregulation

1. The decline in the price of oil provides a good opportunity for at least partial deregulation of natural gas. Although the complexity of gas regulation makes any estimates extremely uncertain, it is unlikely that the average price of gas in the longer term would go up substantially with deregulation. But in the shorter term the impact of deregulation is strongly affected by the handling of long-term contracts, which force the buyer to purchase fixed amounts of gas at high prices. Until these contracts can be renegotiated, it would be difficult to offset an increased price for "old" gas with reduced prices for the high cost gas that has been folded in.

2. The recommendation of the Secretary of Energy is to decontrol the gas industry gradually, as long-term contracts are renegotiated. Immediate deregulation either would mean higher prices or would require an abrogation of contracts.

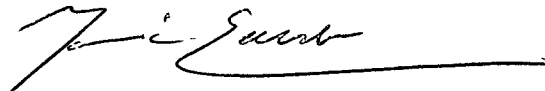
3. Most of the national security implications of gas decontrol appear positive.

- o In the long term, decontrol should help to stimulate US gas production, and consequently to reduce US dependence on possibly insecure foreign oil supplies.
- o Increased US gas production would put greater downward pressure on oil prices, with some potential benefits for the industrial West and most LDCs.
- o With decontrol, Canada and Mexico would have to sell their gas to the US at market prices. There would be little or no room for negotiation, which would remove what has sometimes been a major irritant from our relations with these countries. Indeed, this may be the most important gain from gas decontrol.

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- o Gas decontrol would have little effect on any future sales of Soviet gas to Western Europe. On the one hand, any further decline in oil prices will tend to reduce West European overall demand for gas. On the other hand, the lower the price of gas in Western Europe, the more difficult it will be for Norwegian gas to compete with Soviet gas, which can be priced at whatever the market will bear.
- o Decontrol would tend to strengthen the US position in international energy negotiations by demonstrating our seriousness about developing energy sources as alternatives to oil.

A handwritten signature in dark ink, appearing to read "M. C. Ernst", with a long horizontal flourish extending to the right.

Maurice C. Ernst

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